U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

James L. Oberstar
Chairman

David Heymsfeld, Chief of Staff
Ward W. McCarragher, Chief Counsel

John L. Mica
Ranking Republican Member

James W. Coon II, Republican Chief of Staff

June 11, 2007

SUMMARY OF SUBJECT MATTER

TO: Members of the Subcommittee on Coast Guard and Maritime Transportation

FROM: Subcommittee on Coast Guard and Maritime Transportation Staff

SUBJECT: Hearing to Receive 120-Day Update on the Deepwater Procurement

PURPOSE OF HEARING

The Subcommittee on Coast Guard and Maritime Transportation will meet on Tuesday, June 12, 2007, at 11:00 a.m. to receive an update from Admiral Thad Allen, the Commandant of the United States Coast Guard, on the steps he has taken during the past 120 days (the time that has elapsed from a hearing held on Deepwater by the Subcommittee in January 2007) to improve the management of the Deepwater contract. The Subcommittee will also hear from the Inspector General of the Department of Homeland Security, Richard Skinner.

BACKGROUND

Overview of Deepwater

The Deepwater program is a series of procurement programs intended to renew the Coast Guard's fleet of cutters and aircraft. It is currently expected to cost $24 billion and to require 25 years to complete, and encompasses 91 cutters, 124 small surface craft, and 244 new or converted aircraft, including both helicopters and fixed-wing airplanes. The procurements are intended to create a "system of systems" – meaning a suite of assets that are fully integrated and feature inter-operable command/control/communication systems called C4ISR.

The Deepwater program began its initial planning stages in the 1990s. On June 25, 2002, the Coast Guard awarded the Deepwater program to a consortium comprised of Lockheed Martin and Northrop Grumman and now identified as the Integrated Coast Guard Systems (ICGS). The contract awarded in 2002 was an indefinite delivery, indefinite quantity contract with a five-year

baseline ending in 2007. The contract included five potential additional award terms of up to five years each (in other words, the contract could be extended for as long as 25 years).

The ICGS team serves as the lead systems integrator – meaning that its role is to oversee the acquisition of all planned systems and to ensure that they are integrated into the "system of systems" to support the Coast Guard's missions. The ICGS team has had broad powers to determine the best way of acquiring assets required for the Deepwater program, including making decisions about whether ICGS itself will build assets using the members of its own team or whether it will openly compete acquisitions.

The original plan for Deepwater was submitted prior to the September 11, 2001 terrorist attacks and was expected to cost $17 billion. After 9/11, the Coast Guard's mission was revised to encompass significant new homeland security functions and its asset needs were re-analyzed – yielding a new plan for Deepwater (submitted to Congress on March 25, 2005) that increased its costs to the current $24 billion and increased its procurement period from 20 years to the current 25 years.

Through fiscal year 2007, Congress has appropriated approximately $4.4 billion for the Deepwater program. In fiscal year 2007, Congress appropriated $1.1 billion for Deepwater. The House Appropriations Committee has approved $698 million for Deepwater for fiscal year 2008. This amount is approximately $368 million less than the fiscal year 2007 appropriated level, and $139 million below the President's request.

Problems with Acquisitions Under the Deepwater Contract

The Department of Homeland Security's Office of Inspector General ("OIG") has issued several reports on the problems encountered in the implementation of specific procurements in the Deepwater program.

In August 2006, the OIG issued a report entitled "Improvements Needed in the U.S. Coast Guard's Acquisition and Implementation of Deepwater Information Technology Systems" that detailed problems encountered during the development of the C4ISR system, including problems with the certification of C4ISR components and with the functionality of these systems. The report indicated that inadequate oversight and lack of clarity in the original contract created a situation in which the Coast Guard could not be certain that the contractor was making the decisions that would most effectively accomplish the goals of the Deepwater IT program. The report also cited a "lack of discipline" in the Coast Guard's management of contract change orders.

In January 2007, the OIG issued a report on the Coast Guard's procurement of the National Security Cutter ("NSC") dated January 2007. Currently, eight NSCs – each at more than 400 feet in length – are to be procured under the Deepwater program; these cutters are the single most expensive part of the Deepwater program and could total as much as 12 percent (or more) of the entire $24 billion Deepwater budget.

In its report on the NSC, the OIG indicated that the Deepwater contract requires that the NSC be built to be underway at least 230 days per year for 30 years; the Coast Guard disagrees with the OIG's claims and argues that the Deepwater contract requires that the ships be built to be underway for only 185 days.

The OIG report further claims that weaknesses in the first two NSC hulls may lead the hulls to crack before the end of the 30-year service life of the vessel. It also argues that the failures in the design of the NSC are due to the Coast Guard's failure to properly oversee the NSC contract. Presently, the Coast Guard is working to determine how to strengthen these hulls so that NSC 1 and NSC 2 can achieve what it claims is the required number of days underway each year (185 days) over their projected 30-year service lives if they are operated in general Atlantic and North Pacific conditions. Negotiations are on-going regarding the specific changes that must be made to the hulls, the cost of these changes, and how and when the changes will be completed. The Coast Guard is reportedly working on design alterations that will be incorporated into NSCs 3-8 in order to produce hulls with a fatigue life that meets contractual specifications. Of particular concern is the cost of these corrections and the need to ensure that the designs and plans adopted by the Coast Guard will truly correct the hull-fatigue service life problems.

The problems with the acquisition of the NSC are just the latest in a series of problems encountered in the acquisition of cutters under the Deepwater program. In a procurement initiated earlier in the Deepwater program, the Coast Guard attempted to lengthen 110-foot patrol boats to 123 feet. The hulls of the lengthened boats began to experience buckling shortly after each was delivered. In November 2006, after eight boats had been lengthened, all eight boats were removed from service because of concerns over their operational safety. In April 2007, the Commandant announced that the lengthened boats would be decommissioned and that salvageable informational technology components would be removed from the boats before they were scrapped. The Congressional Research Service reports that between $87 million and $100 million was expended on the failed lengthening effort.

While there is still not agreement about the cause of the hull problems experienced on the 123, the Coast Guard is moving to address the aftermath of that procurement, having recently decommissioned the vessels and having notified ICGS that it has now rescinded acceptance of the ships and will move to seek financial restitution as appropriate.

Similarly, problems have also been encountered with the development of the Fast Response Cutter ("FRC"). The FRC is to be the smallest of the three cutters proposed to be acquired under Deepwater, with a total length likely to range between 120 feet and 160 feet; a total of 58 FRCs are expected to be built. The failed effort to lengthen the 110-foot patrol boats has left a coverage gap in the Coast Guard's patrol hours, particularly in the Caribbean. The Coast Guard has proposed to make up this coverage gap by accelerating the acquisition of the FRC. In February 2006, the Coast Guard suspended work on the initial design effort of the FRC, which had involved the proposed use of a composite hull, following the failure of that initial design to pass certain design tests. The Coast Guard subsequently split the FRC procurement into an A series (of which 46 will be acquired) and a B series (of which 12 will be acquired). The FRC-Bs are to be procured quickly using an off-the-shelf model while the FRC-As will be the subject of a new design effort. In March 2007, the Coast Guard announced that it will procure the FRC-Bs directly from a vendor rather than through the ICGS team.

In February 2007, the Defense Acquisition University ("DAU") issued a report requested by the Coast Guard to provide findings and recommendations to the Program Executive Officer for improvement of this program. In summary, this report finds that a need to quickly recapitalize the Coast Guard with a broad portfolio of new and complex assets led the Coast Guard to use the

"system of systems" strategy. However, this is a complicated strategy to implement and the DAU finds that the Coast Guard's implementation of the strategy has been challenged by the following factors:

- The scope and complexity of design changes that were necessary to respond to the threats presented by the events of 9/11 and that were added after many key engineering milestones had already been crossed;
- Funding provided at levels below those assumed when the ICGS contract was signed in 2002;
- Use of a contract structure inappropriate to the changing missions and requirements of the program and to the major systems integration tasks that were required;
- Industry emphasis on work sharing among joint venture partners that minimized the use of other U.S. industry and existing Coast Guard infrastructure;
- Insufficient numbers of Coast Guard acquisition personnel and insufficient experience in major systems acquisition; and,
- Lack of a management model and processes sufficient for the management and oversight of the major systems acquisitions to be made under Deepwater.

The DAU report indicates that these factors threaten to prevent the Coast Guard from being able to complete all of the acquisitions planned under Deepwater within the planned $24 billion budget and suggests that changes in acquisitions requirements or adjustments to the budget may be needed. The DAU study also recommends specific changes in the Coast Guard's acquisition strategy and the structure and management of the Deepwater contract.

Most recently, the Congressional Research Service notes reports indicating that the United States Department of Justice is investigating the Deepwater contract. The investigation is reported to center on the 110-foot patrol boats and the NSC.

Admiral Allen Announces Changes in Coast Guard's Management of Deepwater

On April 17, 2007, Admiral Allen announced six changes to the Coast Guard's management of the Deepwater program. Among these changes, the Admiral announced that the Coast Guard will assume the lead role as systems integrator and manage life-cycle logistics functions. He also announced that the Coast Guard will expand the role of the American Bureau of Shipping and other appropriate third parties to ensure appropriate design and construction standards are met. Further, he announced that the Coast Guard will contract directly with a prime vendor when it is in the best interests of the Federal Government.

While these announced changes appear to represent a new direction in the Coast Guard's management of the Deepwater program, it is unclear how these new directions will be translated into new practices in the contracting process and, more importantly, what the impact of these practices will be in correcting the significant problems that have been encountered in the Deepwater program.

Separately, Admiral Allen has announced the formation of a new acquisitions directorate in the Coast Guard; however, both the Coast Guard itself and the OIG have expressed concerns about the ability of the Coast Guard to take on a larger role in managing the systems integration functions

under the Deepwater program. The Coast Guard recently testified before another Congressional Committee that it is increasing the number of personnel in its acquisitions unit and will be ready to assume responsibility as the lead systems integrator in 12 to 18 months. The lack of trained and experienced acquisitions experts in the Coast Guard continues to hinder its ability to correct the problems with the procurement – and there is concern both on the part of the Coast Guard and the OIG about the ability of the Coast Guard to attract such personnel given the extent of the negative publicity that has surrounded Deepwater.

PREVIOUS COMMITTEE ACTION

The Subcommittee on Coast Guard and Maritime Transportation has held two hearings on the Deepwater acquisition during the 110th Congress. The first hearing was held on January 30, 2007, and considered the entire Deepwater contract, with a focus on problems involving the NSC. A second hearing was held on March 8, 2007, on the Coast Guard's fiscal year 2008 budget; that hearing received testimony on Deepwater from both the DHS IG and the Government Accountability Office.

The Full Committee on Transportation and Infrastructure held an Investigation hearing entitled "Compliance with the Requirements of the Deepwater Contract" on April 18, 2007. This hearing investigated the failure of the 123-foot patrol boat procurement undertaken as part of Deepwater.

WITNESSES

PANEL I

Admiral Thad Allen
Commandant
United States Coast Guard

PANEL II

The Honorable Richard L. Skinner
Inspector General
Department of Homeland Security